

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

**MINUTES OF THE REGULAR MEETING
OF THE HAWAII HOUSING FINANCE AND DEVELOPMENT
CORPORATION
HELD AT THEIR OFFICE AT 677 QUEEN STREET, SUITE 300,
ON THURSDAY, APRIL 9, 2009
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII**

The Board of Directors (Board) of the Hawaii Housing Finance and Development Corporation (HHFDC) met for their Regular Meeting at 677 Queen Street, Suite 300, Honolulu, Hawaii, on Thursday, April 9, 2009, at 9:00 a.m.

Chairman Charles King called the meeting to order at 9:00 a.m.

**CALL TO
ORDER/
ROLL CALL**

Present: Director Charles King, Chairman
Director David A. Lawrence, Vice Chairman
Director Betty Lou Larson, Secretary
Designee Scott Kami for Director Georgina Kawamura
Director Linda Smith
Director Ralph Mesick
Director Francis Jung
Director Allan Los Banos

Executive Director Karen Seddon

Excused: Director Theodore E. Liu

Staff Present: Sandra Ching, Deputy Attorney General
Craig Iha, Deputy Attorney General
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Rick Prahl, Development Branch Chief
Edward Sunada, Fiscal Manager
Stan Fujimoto, Development Section Chief
Marlene Lemke, Real Estate Services Section Chief
Patrick Inouye, Housing Finance Specialist
Byron Chock, Housing Finance Specialist
Jocelyn Iwamasa, Housing Finance Specialist
Kent Miyasaki, Housing Information Specialist
Esa Pablo, Secretary to the Board

Guests: Kali Watson, Hawaiian Community Development Board
Patti Barbee, Hawaiian Community Development Board
Sarah Van DeVanter, Micon Real Estate
Miguel Saenz, Urban Housing Community
Jesse Wu, Stanford Carr Development
Michael Kahikina, Nanakuli Hawaiian Homestead
Community Association
Frank Lauterbur, Merrill Lynch

Chairman King noted a quorum present.

Director Lawrence moved, seconded by Director Mesick to approve the meeting minutes of March 12, 2009.

The motion was unanimously approved.

Director Lawrence moved, seconded by Designee Kami, to approve staff's recommendation:

That the HHFDC Board of Directors approve the following:

QUORUM

**II. A.
APPROVAL
OF MINUTES**
3/12/09
Regular
Meeting

**III. A.
DISCUSSION
AND/OR
DECISION
MAKING**

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

- A. Adopt Resolution No. 019 Authorizing the Remarketing of the Hawaii Rental Housing System Revenue Bond Program Series 2004 B Bonds;
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Finance Manager Darren Ueki presented the For Action, stating that this is the final restructuring phase of the auction rate securities (ARS).

In October 2004, the Hawaii Rental Housing System Revenue Bond Program (Program) was created through the consolidation of the State of Hawaii Affordable Rental Program and the Rental Housing System Program, to facilitate the development of multi-family rental housing projects owned and financed through the bond proceeds issued by the HHFDC.

The Program 2004 Refunding Series A and B bonds are general obligations of HHFDC, being publicly issued and insured by Financial Security Assurance, Inc. The 2004 Refunding Series A bond (Series A) have a fixed interest rate. Whereas, the 2004 Refunding Series B bonds (Series B), consisting of ARS, have a variable interest rate that fluctuates weekly. Both Series A and B bonds are set to mature in July 2033.

In January 2005, half of the Program bonds were refinanced by HHFDC to address the pending expiration of the Letters of Credits, which improved financial performance, benefiting from the lower interest rates of the ARS. However, in the first two months of 2008, the demand of the ARS decreased and its markets were illiquid.

Therefore, staff proposes to remarket the Series B bonds by converting to fixed interest rates, in hopes of mitigating the issues of volatility and illiquidity associated with the use of ARS financing.

Mr. Ueki reported that Resolution No. 019 would authorize, among other things:

1. The conversion of all of the presently outstanding 2004 Refunding Series B Bonds to fixed rate bonds;
2. the approval of the Second and Third Supplemental Trust Indenture providing for certain amendments to the bond indenture and the remarketing of the bonds;
3. the preparation, distribution, execution of a preliminary remarketing circular and final remarketing circular with respect to such series of bonds;
4. the execution and delivery of a Remarketing Agreement with Merrill Lynch Pierce, Fenner, & Smith Incorporated providing for such firm to remarket the bonds, in such forms and upon such terms, provisions, and conditions, as shall be approved by the Executive Director of the Corporation; and
5. the Chairman, Secretary, Executive Director, and staff of the Corporation to perform such further actions as are necessary in order to effectuate the remarket and deliver of such series of bonds.

Mr. Ueki opened for questions by introducing Mr. Frank Lauterbur, Merrill Lynch Managing Director Global Markets & Investment Banking, who presented and distributed a Market Update and Finance Plan Overview to the Board. Mr. Lauterbur covered the following: (1) General Market Update and Rate Forecast; (2) Municipal Market Update; (3) 2004 Refunding Series B Rate Reset History; (4) Overview of the Plan of Finance; (5) Commentary on Municipal Market; (6) Recent Merrill Lynch Hawaii Fixed Rate Pricing Results; (7) 2004 Refunding Series B Fixed Rate Conversion; and (8) Recent Hawaii Case Studies: City and County of Honolulu, University of Hawaii, Department of Hawaiian Home Lands, and County of Hawaii.

Mr. Lauterbur opened for questions.

Adopt Resolution No. 019, Authorizing the Remarketing of the Hawaii Rental Housing System Revenue Bond Program Series 2004 B Bonds as Fixed Rate Bonds.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Director Smith thanked Mr. Lauterbur for his presentation, inquiring on the basis of the fixed rate conversion. Mr. Lauterbur responded that converting to a fixed interest rate, although higher than the current rate, would be for the life of the bonds, eliminating uncertainty of the current volatile market of the ARS.

Director Smith inquired on the State of Hawaii being the full faith and credit on a bond default. Designee Kami stated that the Series B bonds are limited obligations of HHFDC.

Director Smith inquired on potential investors. Mr. Lauterbur responded that it is anticipated that approximately half of the transaction will be sold to retail investors and the remaining balance being sold to larger institutional investors.

Director Mesick inquired on the impact upon HHFDC if the bond insurer's rating were to fall. Mr. Lauterbur responded that the Corporation would not be exposed to such a risk by converting to fixed rates, and in effect, that risk would fall upon the purchaser of the bond. On the other hand, if the Corporation were to remain in the ARS mode, a downgrade in rating would increase the interest rate paid on the bonds.

Director Larson inquired on higher interest rates resulting in an increase in project rents. Mr. Ueki stated that currently, there are sufficient funds in our reserves to cover increases, due to the refinancing efforts in 2005. However, the bond conversion would assist in determining HHFDC's debt service amount and allow staff to plan accordingly, for the remaining life term of the bond.

Mr. Lauterbur noted that the bonds would have a 10-year optional call and should the fixed interest rate decrease, the bonds may be refinanced.

Director Smith inquired on an extension to the bond maturity date. Mr. Lauterbur stated that the original 30-year 2004 bond commitment does not allow for an extension and an extension to the maturity date would require a full refinancing of the bonds.

The motion was approved.

Director Lawrence moved, seconded by Director Los Banos to approved staff's recommendation:

That the HHFDC Board of Directors approve the following:

- A. A Project Award loan of \$1,900,000 to the Nanakuli Kauhale Development, LP or its successors approved by the Executive Director with terms as shown in Section III (G) of this For Action, and the issuance of the Letter of Intent subject to the following:
 - 1. Authorization and approval by the Governor of the proposed project and the release of RHTF program funds as mandated under Chapter 15-180, Hawaii Administrative Rules.
 - 2. Execution of documentation satisfactory of the HHFDC outlining the terms and conditions of the Project Award. The documents will specify the standard terms and conditions as required in order to meet all statutory requirements of the RHTF program and the specific terms and conditions that are applicable to the applicant's request for Project Award funds.
 - 3. Completion of all documentation necessary and required to secure the release of RHTF funds.
 - 4. Certification of the applicant to comply with all applicable statutory and Program requirements, including but not limited to, Chapters 343, 103D, §103-50 and §104, Hawaii Revised Statutes,

III. B.
DISCUSSION
AND/OR
DECISION
MAKING

Approve a Rental Housing Trust Fund Project Award to the Nanakuli Kauhale Development, LP for the Hale Makana O Nanakuli Project Located in Waianae, Oahu, TMK Nos.: (1) 8-9-002: 001 and 067.

as they may relate to the use of State funds.

5. Availability of the RHTF program funds.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the Hale Makana O Nanakuli project (Project) is located in Waianae, Oahu, consisting of 48 family units.

On June 20, 2008, the Hawaiian Community Development Board (Applicant) submitted a consolidated application for: (1) \$7.1 million in Hula Mae Multi-Family (HMMF) Bonds; (2) \$509,319 in Federal Low Income Housing Tax Credits (LIHTC) and \$254,659 in State LIHTC; and (3) \$5.7 million Project Award from the Rental Housing Trust Fund (RHTF).

In addition to the Project, two other application requests remain pending on the FY2008-02 RHTF Project Award Approved List (Approve List), approved by the Board in October 2008. If the Board should approve staff’s recommended amount of \$1.9 million from the RHTF, there will be approximately \$6.5 million in the RHTF.

Staff has reviewed the Project’s application and proposes the following terms:

Loan Amount:	\$1,900,000 The RHTF Project Award recommendation is \$3,800,587 less than the amount requested by the Applicant.
Form of Loan:	Junior mortgage loan, subject only to the HMMF Bond and whatever liens that may be associated with the issuance of the HMMF Bond; on the leasehold interest in the Project.
Interest Rate:	0.00% during construction financing period. 0.50% following conversion to permanent financing.
Origination Fee:	None
Loan Term:	Construction Period: 24 Months (2 Years) Permanent Period: 660 Months (55 Years) Total Loan Term subject to, and shall not exceed, the length of the ground lease. All principal and accrued interest due at maturity.
Repayment Terms:	No payments during construction period. Payments of 75% of available cashflow after payment of expenses, debt service of the first mortgage and other expenses recognized by HHFDC after conversion to permanent period.
Other Terms:	1. Closing and funding of the RHTF Project Award is contingent upon the Applicant securing and evidencing sufficient financing sources to meet the Project’s total development costs to the satisfaction of HHFDC. 2. The Applicant is solely responsible for finding financing sources to cover the Project’s total development costs. 3. Applicant must evidence debt service coverage satisfactory to HHFDC Based on the financing sources needed to meet the Project’s total development costs. 4. The Project’s total loan to value ratio shall not exceed 100%. 5. The RHTF Project Award is subject to the availability of funds.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

6. No disbursement of Developer's Fee until satisfactory completion of the Project.

Mr. Ueki stated that the approximate RHTF balance of \$6.5 million is anticipated to be sufficient in addressing other affordable housing developer requests that have previously received Project Awards that have been constrained by the current economic conditions.

Mr. Ueki opened for questions, introducing Mr. Kali Watson and Ms. Patti Barbee, from the applying agency.

Director Smith inquired on the term "junior" mortgage loan. Housing Finance Specialist Patrick Inouye clarified that since the Applicant has not established whether the bonds will be a private placement or public offering the term "junior" is commonly used. Mr. Ueki further clarified that a "junior" mortgage is a loan that is lower than the primary loan position.

Director Smith inquired on the May 15, 2009 Letter of Intent expiration date. Mr. Ueki stated that the expiration date is standard for all projects. However, the actual term for this particular Project Award will be for a 6-month period, three months shorter than the usual given timeframe, and will be used as a milestone for progress made in terms of additional funds to fill the \$3.8 million shortfall of the loan request.

Director Smith inquired on the Applicant's response.

Chairman King called upon Mr. Watson.

In response to the Board, Mr. Watson introduced members of the Project's development team, stating that the Project is not able to proceed with the proposed \$1.9 million RHTF Project Award amount. Mr. Watson continued by making comparisons to other projects and suggesting alternative funding sources for the other projects requests.

In closing, Mr. Watson called upon Mr. Kahikina, who asked the Board to reconsider funding the full request of \$5.7 million and thanked the Board for its consideration and assistance.

Director Lawrence inquired on Mr. Miguel Saenz, Urban Housing Community's relation to the Project. Mr. Saenz stated that Urban Housing Community has offices in Hawaii and California and a business relationship with the Hawaiian Development Community Board.

Director Smith inquired on the mechanisms of the Tax Credit Assistance Program (TCAP). Mr. Ueki reported that based on information to date, it appears that the program's intent is to utilize an estimated \$9.8 million to fill financing gaps for projects affected by the loss of tax credit equity. However, the TCAP and Tax Credit Exchange Program Federal guidance and program details are not yet available to make formal commitments.

Director Jung inquired on uncommitted funds being legislatively retracted from the Corporation's administered programs. Mr. Ueki stated that it is possible and a concern. However, the current commitments made are believed to be the most efficient use of those resources at this time.

Director Jung inquired on the Project viability, if additional funding sources are unattainable in the next six (6) months. Mr. Ueki stated that over this period, staff will continue discussions with the developer on available options. However, staff feels this method provides the most options in keeping the Project viable.

Chairman King called for a motion to go into Executive Session.

Director Larson moved, seconded by Director Jung, to convening in executive

**EXECUTIVE
SESSION**
10:05 a.m.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

session pursuant to Section 92-5(a)(4) to consult with the board’s attorney on questions and issues pertaining to the board’s powers, duties, privileges, immunities and liabilities as it relates to the Rental Housing Trust Fund.

The motion was approved.

Chairman King called the regular meeting session back to order at 10:35 a.m., reporting that in the case that the Project is unable to find additional resources and is in need of future funding from the RHTF, a new application would need to be submitted at the next funding round. Mr. Ueki clarified that pending the availability of funds, the next anticipated gap financing funding round would be in June 2009.

Mr. Watson questioned the Board on having sufficient information to make a complete decision on the Project and suggested that the Board defer action on all projects presented at today’s meeting until the following month.

Director Mesick inquired on approving the Applicant’s full request of \$5.7 million, with the remaining \$3.8 million being “subject to the availability of funds.” Mr. Ueki stated that theoretically, when making a commitment on a “subject to” basis, there would need to be sufficient funds before making such a commitment and doing so, would impact the awarding process to other projects. Deputy Attorney General Sandra Ching concurred.

The Board commented that this Project is an important project and believes that this is a constructive step in keeping the project viable while continuing to work with the Applicant to find other funding sources. Furthermore, part of the Board’s mandate is to encourage Applicants to attain leverage through other resources in order to stretch the State’s resources.

The motion was unanimously approved.

Director Lawrence moved, seconded by Director Larson, to approve staff’s recommendation:

That the HHFDC Board of Directors approve the following:

- A. Approve Resolution No. 020, attached as Exhibit E, which provides for official intent with respect to the issuance of revenue bonds up to \$7,100,000 to the Nanakuli Kauhale Development, LP for the Hale Makana O Nanakuli Project subject to the provisions recommended in Exhibits B and D.
- B. Reserve up to \$509,319 in annual Federal LIHTC and \$254,659 in annual State LIHTC from the non-competitive pool to the Nanakuli Kauhale Development, LP for the Hale Makana O Nanakuli Project subject to the provision recommended in Exhibits C and D.
- C. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that majority of the details were discussed in the previous For Action regarding the Hale Makana O Nanakuli project (Project).

The uncommitted Hula Mae Multi-Family (HMMF) Program Bond Authority balance is approximately \$157,573,007, as of February 28, 2009.

The Project proposes a private placement of bonds to a qualified investor or a public issuance with a 30-year bond term.

Director Smith asked for clarification on the Inducement Resolution capturing expenses incurred by the developer. Mr. Ueki concurred and added that the same

RECONVENED
10:35 a.m.

**III. C.
DISCUSSION
AND/OR
DECISION
MAKING**

Approve: (1)
Resolution No. 020,
Which Provides for
Official Intent with
Respect to the
Issuance of Hula Mae
Multi-Family Tax-
Exempt Revenue
Bonds and (2)
Reservation of Low
Income Housing Tax
Credits to the
Nanakuli Kauhale
Development, LP for
the Hale Makana O
Nanakuli Project
Located in Waianae,
Oahu, TMK Nos.:
(1) 8-9-002: 001 and
067.

“junior” mortgage loan terms would apply as stated in the previous For Action.

The motion was unanimously approved.

Director Mesick moved, seconded by Director Lawrence, to approve staff’s recommendation:

That the HHFDC Board of Directors approves the following:

- A. Approve the initial Approved and Rejected List for the FY 2009 funding round for Project Awards, subject to the following provisions and conditions:
 - 1. The approval of the Approved and Rejected List does not obligate or guarantee that any and all applicants on the Approved Project List will receive funding;
 - 2. HHFDC may elect to select, reject, or defer an applicant’s request, if HHFDC judges such action to be in the best interest of the Program;
 - 3. The amount of an award is subject to the availability of Program funds. HHFDC is not obligated to approve or fund the full amount of the applicant’s request;
 - 4. The actual form, terms, and conditions of each award shall be determined by HHFDC and are subject to negotiation between the applicant and HHFDC, and the completion of all appropriate legal documentation satisfactory to HHFDC and its legal counsel;
 - 5. The approval of each award and the disbursement of funds are subject to the final approval of the Governor of the State of Hawaii;
 - 6. The applicants will agree to abide by all the terms and conditions that may arise due to the use of public funds; and
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the FY2009 Rental Housing Trust Fund (RHTF) Project Award (2009 RHTF Project Award) funding round closed on February 27, 2009.

The HHFDC received ten application requests for available funds from the RHTF, resulting in an approximate remaining balance of \$8.4 million, which does not include the previously approved \$1.9 million awarded to the Hale Makana O Nanakuli project.

Due to the poor economic conditions, it is in the best interest of the HHFDC’s mission for affordable housing development to defer application requests that do not have an existing RHTF Project Award. However, the deferral of these applications shall not be viewed as a standard practice in future funding rounds.

Therefore, only four out of the ten applications received during the 2009 RHTF Project Award funding round will be placed on the current Approved and Rejected List, with the remaining six applications being deferred, until further notice.

The approval of an Approved and Rejected List does not obligate or guarantee that the applicant will receive funding. Any projects listed on the Approved and Rejected List shall remain in effect until the awards to all selected projects are made or until the next Approved and Rejected list is approved. Recommendations

**III. D.
DISCUSSION
AND/OR
DECISION
MAKING**

Adopt an Initial Approved and Rejected List for the Rental Housing Trust Fund Project Award FY 2009 Funding Round Based on Priorities Set by the Executive Director in Accordance with Chapter 201H, Hawaii Revised Statutes, the Hawaii Administrative Rules, and the Rental Housing Trust Fund Procedural Manual.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

for such Project Awards and additional project details are forthcoming in separate For Actions and will be presented to the Board in future meetings.

Mr. Ueki opened for questions.

Director Larson inquired on the projects being deferred. Mr. Ueki stated that the deferred projects would remain eligible for future funding and will continue to be until the next Approved and Rejected List is approved.

In response to the Board, Mr. Ueki noted that with the guidance provided by the Board, staff felt that it was not feasible to address all ten application requests within the short timeframe. Therefore, by proceeding with the deferrals of some projects, it would allow projects with existing commitments to move forward, including projects like the Hale Makana O Nanakuli project, to be considered for further additional funding.

The motion was unanimously approved.

Director Lawrence moved, seconded by Director Jung, to approve staff's recommendation:

That the HHFDC Board of Directors approves the following:

- A. Increase the RHTF Project Award by \$1,148,443 to \$7,759,346 as noted in section III (G).
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the Hale Ohana Apartments project (Project) consist of 48-family units, located in Koloa, Kauai.

In December 2008, the Board approved the Koloa Hale Ohana, LP's (Applicant) application request, submitted in June 2008, for: (1) \$9 million in Hula Mae Multi-Family (HMMF) Bonds; (2) \$459, 469 in Federal Low Income Housing Tax Credits (LIHTC) and \$229,734 in State LIHTC; and (3) \$6,620,903 in the form of a RHTF Project Award.

During the first two months of 2009, staff polled projects that received previous HHFDC awards, and offered a special, one-time request, for additional Rental Housing Trust Fund (RHTF) funding to fill financing gaps prompted by inability issues of the previously awarded LIHTC.

On February 27, 2009, the Applicant submitted a consolidation application for approximately \$1.15 million in additional RHTF funds, to cover projected decline in the LIHTC equity. Should the Applicant find a potential investor for the LIHTC, the proceeds from the sale would be used to repay the \$1.15 million portion of their RHTF loan amount.

Mr. Ueki noted that the Project's budget has not changed since actions taken by the Board in December 2008.

Mr. Ueki opened for questions, introducing Ms. Sarah Van DeVanter, on behalf of Mr. Mike Condry, Developer.

Director Larson inquired on the intent of the developer and anticipated timeframe of LIHTC sales. Ms. Van DeVanter thanked the Board for the opportunity to speak and its consideration, stating that there will be continuing efforts in seeking a credit investor. Mr. Ueki added that the Project would need to find an investor prior to the anticipated completion of the Project in 2010.

Director Smith asked for clarification on the State and Federal LIHTC. Mr. Ueki stated that for volume cap 9% competitive LIHTC, the awardee is given the

III. E. DISCUSSION AND/OR DECISION MAKING

Approve a Rental Housing Trust Fund Project Award to the Koloa Hale Ohana, LP for the Hale Ohana Apartments Project Located in Koloa, Kauai, TMK Nos.: (4) 2-8-003: 036 and 038.

balance of the calendar year in which the credits are awarded, as well as two full calendar years to complete the project and placed in service. Whereas, the non-volume cap 4% LIHTC is based on the completion of a construction or acquisition/rehabilitation activity on the project.

Director Smith inquired on the eligibility of exchange with regard to the Federal Economic Stimulus Package. Mr. Ueki stated that based on what has been received, it is believed that the Stimulus Package is solely based on the 9% competitive LIHTC. However, the Project may be eligible for the Tax Credit Assistance Program's (TCAP) funding to fill financing gaps due to the decrease in LIHTC investments.

Director Larson abstained her vote on this For Action, commenting that she believes the 30-year affordability term to be inadequate for the funding amount committed for the rehabilitation of the project.

Designee Kami inquired on Act 221 with regard to the State LIHTC. Mr. Ueki stated that there is a Legislative proposal that would monetize the State LIHTC into the form of a grant or loan.

The Board inquired on the current owners' intentions. Ms. Van DeVanter indicated that the owners would go to market in the case that the Project has exhausted all its options to keep it affordable.

Director Smith encouraged this type of endeavor for RHTF funding, being a way to regenerate funds back into the RHTF as well as providing incentives for the developer in terms of the LIHTC.

The motion was unanimously approved; Director Larson abstained.

Director Lawrence moved, seconded by Director Jung, to approve staff's recommendation:

That the HHFDC Board of Directors approves the following:

- A. Increase the RHTF Project Award by \$1,543,446 to \$9,843,446.
- B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Mr. Ueki presented the For Action, stating that the Honokowai Villa Apartments project (Project) consists of 56 units, located in Lahaina, Maui, and also reflects the dynamics of the previous For Action.

The Lahaina Honokowai Villa, LP (Applicant) submitted a consolidated application request for approximately \$1.54 million from the Rental Housing Trust Fund (RHTF) due to the decrease in the Low Income Housing Tax Credit (LIHTC) equity, bringing its total RHTF loan amount to \$9.84 million. In the event that the LIHTC are sold, the proceeds will be used to repay its additional \$1.54 million RHTF loan amount.

Mr. Ueki opened for questions, along with Ms. Van DeVanter.

Director Smith asked for clarification on the additional RHTF funding. Mr. Ueki stated that the additional funds would accelerate the acquisition and rehabilitation process for the Project.

The motion was unanimously approved; Director Larson abstained.

Director Smith commented that the Board be mindful of similar projects that have met their Federal obligations and are in need of preservation.

Director Larson commented that a policy be put in place, requiring staff to work

**III. F.
DISCUSSION
AND/OR
DECISION
MAKING**
Approve a Rental
Housing Trust Fund
Project Award to the
Lahaina Honokowai
Villa, LP for the
Honokowai Villa
Apartments Project
Located in Lahaina,
Maui, TMK No.:
(2) 4-4-001: 054.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

with non-profits, reducing current and future project costs on a long-term basis.

Director Smith moved, seconded by Director Lawrence, to approve staff's recommendation:

That the HHFDC Board of Directors approve a short-term DURF interim bridge loan for the Hale Wai Vista I, project, substantially as discussed in this For Action, subject to the following:

- A. Availability of DURF funds;
- B. Approval and release of funds by the Governor;
- C. Approval and execution of necessary loan documents by the Executive Director;
- D. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director; and
- E. The Executive Director shall be authorized to take all actions necessary to effectuate the purpose of this For Action.

Director Smith moved and Director Lawrence seconded a motion to accept staff's recommendation.

Development Project Manager Stan Fujimoto presented the For Action, stating that the Hale Wai Vista Phase I project (Project) is one phase of three, of an affordable multi-family rental housing community. The Project will consist of 84-out of a total 215 - affordable units, targeting families at or below the 30% to 60% U.S. Department of Housing and Urban Development (HUD) area median income.

The developer obtained environmental assessments, foundation permits, and zoning exemptions for all three phases in 2008, with one condition of the zoning exemption that the Project must commence construction no later than April 16, 2009.

Because the project could not meet the permitting and construction completion deadline of December 31, 2008, its previously awarded Low Income Housing Tax Credits (LIHTC) were returned and a new application was submitted in February 2009.

The developer started construction in January 2009, however the developer's existing financing for its construction is anticipated to be depleted by July 2009, and is therefore, requesting a \$6 million Dwelling Unit Revolving Fund (DURF) interim bridge loan, to enable continuation of construction until it can close its already approved RHTF loan.

The For Action seeks the approval of a DURF interim bridge loan for the Project, with the following loan terms:

Loan Amount:	\$6.0 million
Annual Interest:	3%
Loan Points:	0.5 point
Loan Term:	One year, with one six-month extension, at the discretion of HHFDC.

Mr. Fujimoto opened for questions, introducing Mr. Gary Furuta, Developer.

Director Larson recused herself from voting on this For Action.

Director Smith inquired on the delay in awarding the RHTF loan request. Mr. Fujimoto stated that normally the RHTF is unable to be closed without all of the

III. G. DISCUSSION AND/OR DECISION MAKING

Approve a DURF Interim Loan for the Hale Wai Vista Phase I Project Located in Waianae, Oahu, TMK No.: (1) 8-6-001: 35 (portion).

financial components (interim and permanent) approved and in place. Mr. Ueki concurred, adding that certain RHTF requirements are needed, as in this case, the awarding of the LIHTC, to be complete prior to the closing of the loan.

The Board inquired on the reasoning of the DURF bridge loan request. Mr. Furuta thanked the Board for its consideration, explaining that because of the mentioned RHTF stipulation, the Project has requested a DURF bridge loan to cover construction expenses required within an estimated five to six month period, that was originally to be covered by the already approved RHTF loan. If the DURF loan request is approved, the Project's construction costs will remain the same and the project is anticipated to be completed by the end of 2009 or the first quarter of 2010.

Director Lawrence inquired whether the \$6 million DURF loan amount could be obtained from Central Pacific Bank (CPB) (the current lender financing the construction). Mr. Furuta explained that CPB has funded previous projects and probably would consider it. However, CPB is currently funding construction without any takeout financing in sight, so the project team is looking to other sources of funding, such as the State, so that it can continue to use CPB for other future endeavors.

Director Smith inquired on the stipulation of the RHTF. Mr. Ueki stated that awarding the RHTF request before the LIHTC are awarded would be a calculated risk, being that the Project is in construction. However, based on the scoring mechanism of the LIHTC program, the Project would probably score well enough to be funded.

Designee Kami inquired on the effectiveness of doing two separate loans versus one. Executive Director Seddon stated that the request is within the purpose of interim construction and a good use of the DURF.

The motion was unanimously approved, with Director Larson abstaining.

Director Lawrence moved, seconded by Director Los Banos, to approve staff's recommendation to accept the amended audited financial statements of the HHFDC for the fiscal year ended June 30, 2008.

Executive Director Karen Seddon noted that there is no For Action sheet cover for this Item, other than what was distributed for the original audit, due to the tentative scheduling of the amended HHFDC audited financial statements (HHFDC Audit). A copy of the amended HHFDC Audit is now available for the Board's review.

Attributed to the decline in the Auction Rate Securities (ARS) market, the Governmental Accounting Standards Board Statement No. 31 (GASBS 31) was established, requiring governmental entities to report certain investments at fair value, with the write-down of the State's investments being reflected in its financial statements.

In reference to the DAGS - Investment in Cash Pool (HHFDC's calculation) document, the HHFDC's total FY08 charge-off from the appropriated funds are approximately \$5.9 million, and have been reflected throughout the HHFDC Audit.

Director Larson inquired on the deducted charge-off amounts. Designee Kami stated that the "charge-off" is a cash fund that is invested in part of the State's treasury investment pool. With regard to GASBS 31, the HHFDC needs to reflect investments of the ARS market each year. With the illiquid market of the ARS, the market value was reduced as of June 30, 2008. However, given the ability to hold these investments to maturity, the Corporation is able to collect on any interest or principal investments made.

The motion was unanimously approved.

**III. H.
DISCUSSION
AND/OR
DECISION
MAKING**

Accept the Amended Audited Financial Statements of the Hawaii Housing Finance and Development Corporation for the Fiscal Year Ended June 30, 2008.

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Chairman King proceeded to the Report of the Executive Director, noting that Executive Session will then follow.

Chairman King inquired on the Urban Land Institute (ULI) roundtable discussion. Executive Director Seddon reported that Mr. Charles A. Long, developer specializing in mixed-use infill projects, presented information regarding the Tax Increment Financing (TIF) process. Discussion ensued on the TIF process being a very viable vehicle for localities and states for funding infrastructure and on applying that process within the State of Hawaii.

Chairman King inquired on the lead of the TIF process. Executive Director Seddon stated that she believes the ULI to be the lead. However, the Corporation is participating in the process as much as possible.

In regard to the Waikoloa project, Designee Kami inquired on the Counties having the ability to issue these types of increment financing. Executive Director Seddon clarified although similar, a Community Facility District (CFD) rather than a TIF was used for the Waikoloa project.

Director Larson inquired on affordable housing being included in the Transit Oriented Development (TOD). Executive Director Seddon turned to Chief Planner Janice Takahashi, who responded and reported on the following:

- With regard to the TOD, there have been discussions with the Department of Planning and Permitting, who have agreed to involve the HHFDC in its planning process.
- There was a proposed bill that is no longer alive, that would have created a TOD Task Force. However, there is a Senate concurrent resolution proposing that the HHFDC establish a TOD Task Force to facilitate mixed income and affordable housing in such developments, being amended to involve the community and the Land Use Commission.

Director Lawrence inquired on the status of the Puukolii project. Executive Director Seddon stated that the Land Use Commission approved the project. Mr. Fujimoto added that the project is progressing through the planning process.

Chairman King inquired on the legislative proposal of the HHFDC being transferred from the Department of Business, Economic Development, and Tourism (DBEDT) to the Department of Human Services (DHS). Executive Director Seddon stated that it appears that HHFDC will not be transferred to DHS. Ms. Takahashi elaborated on the two proposed bills, reporting that the House version would transfer HHFDC out of DBEDT, whereas, the Senate version, would keep HHFDC as one of the remaining agencies within DBEDT.

Director Larson inquired on the Summary of H.B. 200, H.D. 1 Relating to State Budget. Ms. Takahashi responded and reported on the following Legislative Bills:

- Summary of HB200, HD 1 Relating to State Budget - Ms. Takahashi reported that the Senate approved an SD1; however, the budget tables have not been released. The House draft proposes to eliminate both the Account Clerk (re-described to Accountant IV) and Executive Deputy Director positions and transfers 33 permanent positions (30 civil services and 3 exempt) and 47 temporary positions (all exempt) from DBEDT to DHS.

On the other hand, the House draft includes the following CIP appropriations: (1) RHTF: \$15 million for each FY10 and FY11, out of the original request of \$25 million for each fiscal year; (2) DURF: \$10 million for each FY10 and FY11, out of the original request of \$25 million for each fiscal year; (3) Senior Residence at Iwilei construction: total requested amount of \$33 million for FY10; and (4) Rental apartment complex in

V. REPORT OF THE EXECUTIVE DIRECTOR

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

Kakaako: \$5 million for land acquisition for FY10, in which the HHFDC did not request and is unsure of its purpose.

We understand that the Senate draft also provides for CIP appropriations for the RHTF and DURF; however, it does not appropriate funds for the Senior Residence of Iwilei.

- HB39, SD1: proposes to transfer \$14.3 million in excess funds from the DURF to the State's General Fund.
- SB884, HD1: proposes to transfer \$2 million from the Housing Finance Revolving Fund and \$10 million from the Rental Assistance Revolving Fund to the State's General Fund. The bill would also reduce the amount from 30% to 15% of conveyance tax contributed to the RHTF from July 1, 2009 to June 30, 2015.
- HB174, SD1: proposes to reduce the conveyance tax amount contributed to the RHTF from 30% to 25% for three years and also increases the rate of the conveyance tax for properties over a million dollars.

Two of HHFDC's administration bill proposals are moving and we anticipate passage:

- SB862, SD2 enables HHFDC to collect the value of shared appreciation equity and other restrictions when an affordable housing property is publicly sold through a non-judicial foreclosure and clarifies that such restrictions are priority liens.
- HB1045, SD1 makes housekeeping amendments to Chapter 201H, HRS and authorizes HHFDC to impose service fees to recover program expenses.

Director Larson inquired on how the proposed LIHTC Bill would work. Ms. Takahashi stated that instead of awarding the tax credits, SB 1118, HD1 authorizes the issuance of G.O. bonds to fund low-income housing tax credit loans. The loan would be in an amount equal to 70% of the cash value of the tax credits over ten years and discounted to present day value and capitalized at the rate of interest on the G.O. bonds used to fund the loan. By monetizing the LIHTC, the rental housing projects realize more funding than if the credits are sold. The Department of Taxation has stated that the LIHTC loan program would be budget neutral.

Chairman King called a motion to recess.

RECESS
11:55 a.m.

Director Larson moved, seconded by Director Kami to recess the meeting at 11:55 a.m.

The motion was approved.

Chairman King reconvened in open session at 12:03 p.m.

RECONVENED
12:03 p.m.

Director Lawrence moved, seconded by Director Larson, to go in to Executive Session.

**IV.
EXECUTIVE
SESSION**
12:04 p.m.

The motion was unanimously approved.

Chairman King reconvened in open session at 12:50 p.m.

RECONVENED
12:50 p.m.

Director Lawrence moved, seconded by Director Jung, to adjourn the meeting at 12:50 p.m.

**VI.
ADJOURNMENT**

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

The motion was unanimously approved.

A handwritten signature in cursive script, reading "Betty Lou Larson", is positioned above a horizontal line.

BETTY LOU LARSON
Secretary